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April 15, 2020

The Honorable Anthony Kern, Chair
Joint Legislative Audit Committee

The Honorable Rick Gray, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Gray:

We have recently completed an initial followup of the Arizona School Facilities Board—Building Renewal Grant Fund special audit regarding the implementation status of the 28 audit recommendations (including subparts of the recommendations) presented in the special audit report released in June 2019 (Auditor General Report 19-105). As the attached grid indicates:

- 4 have been implemented.
- 8 are currently being implemented.
- 12 have not been implemented.
- 4 are not yet applicable

We will conduct an 18-month followup with the Board on the status of those recommendations that have not yet been fully implemented.

Sincerely,
Dale Chapman, Director
Performance Audit Division

cc: Mr. Andy Tobin, Interim Executive Director
Arizona School Facilities Board

Arizona School Facilities Board—Building Renewal Grant Fund

Auditor General Report 19-105

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Districts' BRG project delays and Board's lack of monitoring contribute to potential health and safety risks, increased State costs, and BRG Fund monies sitting idle for years

1. The Board should review all 628 open BRG projects to determine each BRG project's current status, including determining whether a deficiency still exists and remains uncorrected, if the BRG project has received a construction project award, if construction has started, and if construction is complete, before canceling or closing these projects

Implementation in process

On January 23, 2020, the Governor appointed the Arizona Department of Administration (ADOA) Director as the interim Executive Director of the Board.

An ADOA official reported that ADOA and Board staff have been working to identify legacy projects that are ready to be closed. In its January and March 2020 Board meetings, Board staff reported closing 71 legacy projects which de-obligated approximately \$643,000 in BRG fund monies that could then be used for other projects. We reviewed a sample of 5 closed legacy projects and found that for 2 of the 5 legacy projects, the district reported that the deficiency had been corrected. For 1 of the 5 legacy projects, Board staff closed the project although the district asked for it to remain open because of a dispute with the contractor regarding the quality of work. For the remaining 2 legacy projects, the Board notified the districts that the projects were being closed or canceled due to inactivity and that if a deficiency remained, the district should reapply for BRG monies. The ADOA official reported that they plan on closing or reclassifying all legacy projects by the end of fiscal year 2020.

2. The Board should establish processes consistent with State policy and supported by written policies and procedures, where appropriate, to:
 - a. Obtain and track each BRG project's project-completion time frames.

Not Implemented

The Board has not yet developed a process for obtaining and tracking each BRG project's project-completion time frame. However, the ADOA official reported that the Board is in the process of modifying the BRG project application to include information about project completion time frames. Further, the ADOA official reported that in fiscal year 2021, the Board plans to begin utilizing eCivis grants management software for grant applications, which will require districts to submit project time frames as part of the grant application.

Recommendation

Status/Additional Explanation

- b. Track each BRG project's phase status and each phase's start and end dates.

Not Implemented

The ADOA official reported that the Board plans on migrating to the eCivis grants management system in fiscal year 2021. As part of this transition, the Board plans to restructure its application and award process and will require districts to separately apply for each phase of the project.

- c. Require districts to provide regular project status updates for open BRG projects.

Not Implemented

The ADOA official reported that the Board plans to require districts to submit quarterly progress reports on their open BRG grants for all new BRG projects approved on or after July 1, 2020.

- d. Develop and implement management reports and other tools to systematically and regularly monitor each open BRG project's status and progress.

Implementation in process

The ADOA official reported that the Board is in the process of developing electronic monitoring tools, such as dashboard reports, that will help the Board to monitor open projects. The Board provided one of these dashboard reports for our review. According to the ADOA official, these tools should be completed in mid-April 2020.

3. The Board should establish processes for using the data from its monitoring activities, supported by written policies and procedures, where appropriate, to:

- a. Work with districts to address any obstacles that prevent them from making progress and mitigate any health and safety impacts related to the continued existence of an uncorrected deficiency.

Not yet applicable

The Board has not yet developed the monitoring activities outlined in Recommendations 2a through 2d (see explanations for Recommendations 2a through 2d). Without the information that would result from these monitoring activities, the Board cannot (1) identify districts that are not making progress toward correcting deficiencies and work with these districts to address any obstacles that prevent them from making progress and mitigate any health and safety impacts of an uncorrected deficiency; (2) hold districts accountable for meeting their BRG project responsibilities; (3) proactively plan and request funding for future BRG projects; and (4) plan Board staff's workload based on the status of existing BRG projects.

- b. Hold districts accountable for meeting their BRG project responsibilities.

Not yet applicable

See explanation for Recommendation 3a.

- c. Proactively plan and request funding for future BRG projects. Before requesting a supplemental or increased appropriation, the Board should first review its management reports and make a written determination of how much committed money can be recommitted to other projects.

Not yet applicable

See explanation for Recommendation 3a.

Recommendation

Status/Additional Explanation

- d. Plan Board staff's workload based on the status of its existing BRG projects.

Not yet applicable

See explanation for Recommendation 3a.

4. The Board should work with the Arizona Office of Grants and Federal Resources to obtain access to and implement the use of eCivis SRM for managing BRG projects. If the Board determines that it will continue devoting staff time and resources to modify its own IT systems to manage BRG projects, it should conduct and document the results of a cost-benefit analysis and justify the use of these resources rather than using the eCivis system.

Implementation in process

The ADOA official reported that beginning in fiscal year 2021, the Board plans to transition to using eCivis for managing BRG projects from the district submitting a BRG application through the closeout of the project and that staff from the Office of Grants and Federal Resources have been working with the Board to complete this transition.

Finding 2: Board should improve its use of IT systems to better ensure timely payments to districts and BRG project closures so unspent monies can be re-committed to other BRG projects

5. The Board should modify its PayAppinator system to track and monitor the timeliness of open payment requests and rejected payment requests.

Not Implemented

The Board has not yet modified its PayAppinator system to track and monitor the timeliness of open payment requests and rejected payment requests. Further, some of the Board's liaisons are not meeting Board management's expectations that they process all payment requests routed to them on a daily basis. Specifically, we found that some payment requests had been open between 7 and 26 days without being processed.

6. The Board should work with the Arizona Office of Grants and Federal Resources to obtain access to and implement the use of eCivis SRM for managing BRG project closeout. If the Board determines that it will continue devoting staff time and resources to modify the PayAppinator for managing BRG project closeout, it should conduct and document the results of a cost-benefit analysis and justify the use of these resources rather than using the eCivis system.

Implementation in process

See explanation for Recommendation 4.

7. The Board should develop and implement processes, supported by written policies and procedures where appropriate, to:

- a. Address any problems that are potentially leading to payment requests not being paid within 30 days.

Not Implemented

The Board has not yet modified its PayAppinator system to track and monitor the timeliness of open payment requests and rejected payment requests (see explanation for Recommendation 5). The ADOA official reported that when the Board transitions to eCivis in fiscal year 2021, eCivis will be able to track all payment requests from the time a district submits them until they are paid and that instead of rejecting payment requests, Board staff will reach out to the district to request any missing information needed to support the payment request. In addition, eCivis will be used to track BRG projects from application through closeout.

Recommendation

Status/Additional Explanation

- b. Regularly follow up with districts and provide assistance as needed to help ensure they re-submit rejected payment requests in a timely manner.

Not Implemented

See explanation for Recommendation 7a.

- c. Address any problems that are potentially leading to untimely project closeout.

Not Implemented

See explanation for Recommendation 7a.

Finding 3: Board members failed to disclose interests, and 1 Board member failed to refrain from participating in decisions related to those interests

8. The Board should establish a process to allow Board members to fully disclose substantial interests in its public meetings as a reason for not participating in a meeting agenda item. These disclosures should be documented in the Board's meeting minutes, including the name of the person with an interest (i.e., Board member or Board member's relative), the interest's description, and the reason the Board member is refraining from voting or otherwise participating.

Implementation in process

Since September 2019, the Board has included an agenda item on its monthly Board meeting agendas for Board member recusals. We observed the January 2020 Board meeting during which Board members recused themselves from specific agenda items and explained the reasons why. However, the Board has not consistently included the reasons for Board members' recusals in the Board's meeting minutes. Specifically, in 3 of the 4 Board meeting minutes we reviewed for meetings held in September through December 2019, the minutes did not include specific information about disclosed conflicts of interest, such as a description of the interest or the reason for recusal.

9. The Board should develop and implement a process to help Board members identify meeting agenda items involving their interests, such as notating Board meeting agendas and/or adding vendor names to the project summary, to identify agenda items for which Board members have conflicts based on the interests listed on their forms.

Not Implemented

The Board has not implemented a formal process to help Board members identify meeting agenda items for which they may have conflicts, such as notating agenda items or adding vendor names to the project summaries. However, at the January 2020 Board meeting, we observed Board staff alert 1 Board member to 2 agenda items that represented a conflict of interest for that Board member.

10. The Board should continue using its new, more comprehensive conflict-of-interest form.

Implementation in process

The Board has continued to use its conflict-of-interest form for new staff that it has hired since the end of our audit. However, it did not require the 1 new Board member who joined the Board since our June 2019 audit report to complete a conflict-of-interest form.

11. The Board should develop and implement a process to ensure new Board members complete and file a conflict-of-interest form before they begin serving on the Board.

Not Implemented

Although the Board's policy requires Board members to submit a conflict-of-interest form, the Board did not obtain a conflict-of-interest form from the only new Board member, a nonvoting member, who joined the Board since our June 2019 audit report. However, as of December 2019, this Board member no longer serves on the Board.

Recommendation**Status/Additional Explanation**

12. The Board should require all Board members and employees to complete conflict-of-interest forms at least annually and maintain these disclosures in a separate special file for public inspection.

Implemented at 6 months

Finding 4: Board staff and vendor actions and Board procurement policy and guidance for districts could confuse districts, leading to decreased competition, potentially unfavorable pricing, and compliance issues

13. The Board should develop a written policy, procedure, or other employment document that prohibits Board staff from requiring or recommending that districts use specific vendors for projects that receive Board monies.

Not Implemented

The ADOA official reported that the Board plans to update its BRG application and other guidance to make it clear that only districts are authorized to procure, select, and contract with vendors for BRG projects. The ADOA official reported that the application and other guidance will be updated to reflect this information for all new BRG projects approved on or after July 1, 2020.

14. The Board should revise its policies for districts to explicitly state that districts are solely responsible for procuring, selecting, and contracting with vendors, and that Board staff are not authorized to select vendors or otherwise require or suggest that districts use specific vendors.

Not Implemented

See explanation for Recommendation 13.

15. The Board should reassess and revise its procurement policy to ensure it does not mislead districts and is consistent with the School District Procurement Rules and the USFR and explicitly states that districts must comply with all requirements in the School District Procurement Rules and the USFR, such as the USFR's requirement for considering cumulative purchases when determining the appropriate procurement method in addition to following the Board's procurement policy.

Not Implemented

As of January 8, 2020, the Board had not revised its procurement policy, which districts are required to follow to obtain BRG Fund monies, to clarify the areas that could mislead districts. In addition, since our June 2019 audit report, the lack of clarity in the Board's procurement policies has caused Board staff to unnecessarily delay a school district's BRG project for nearly 6 months, which resulted in additional work and an increased cost of approximately \$15,000 to the district. The ADOA official reported that in May 2020, the Board plans to eliminate its procurement policy and instead direct districts to use their own procurement policies and the School District procurement rules.

16. The Board should revise its terms and conditions to:

- a. Change "procurement rules developed by the State Board of Education" to the "School District Procurement Rules adopted by the Arizona State Board of Education."
- b. Add a reference to the USFR purchasing guidelines.
- c. Delete the reference to "Arizona Procurement Code."

Implemented at 6 months

Implemented at 6 months

Implemented at 6 months

Recommendation**Status/Additional Explanation**

- d. Also require that district staff who are responsible for procuring and selecting vendors, such as the business manager or chief financial officer, sign the terms and conditions.

Implementation in process

The Board updated its Terms and Conditions to include signature lines for district staff that are responsible for procuring and selecting vendors, including the Superintendent, the Chief Financial Officer or Business Manager, and the Facilities Director. However, the instructions preceding the signature fields only state that the Governing Board President must sign the Terms and Conditions.

Finding 5: Districts did not always comply with School District Procurement Rules and USFR requirements

17. The 8 sampled districts should comply with the procurement requirements established in the School District Procurement Rules and the USFR when procuring, selecting, and contracting with vendors for work on BRG projects, including documenting the district's reasoning for selecting vendors based on factors other than lowest price, complying with all requirements for using cooperative agreements, and overseeing procurement consultants.

Implementation in process

For fiscal year 2019, 2 of the 8 districts did not have any BRG projects, and 5 districts either did not have any procurement deficiencies or did not have any BRG projects over \$10,000, which would have required the districts to competitively bid the projects. As of March 2020, the independent auditors were still reviewing the 1 remaining district's procurement of vendors for BRG projects in fiscal year 2019.